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LAC-IEE-05-08

ENVIRONMENTAL THRESHOLD DECISION

Country: Caribbean Region

Activity Title: Caribbean Region Positioned to Succeed in an Open Trade Environment (to now include DCA agreement for Grenada)

Activity Number: 538-009

Life of RSO: FY 2005 – 2009

Amount: To include a US\$4.0 million DCA Guarantee with total Loan Portfolios US\$8.0 million.

IEE Prepared by: Joan Taffe, Program Management Specialist
OPDM, USAID/J-CAR

Reference IEE: LAC-IEE-04-66

Date Prepared: March 3, 2005

Recommended Threshold Decision: Negative Determination with Conditions

Bureau Threshold Decision: Negative Determination with Conditions

Comments:

This Threshold Decisions covers the Caribbean Region Positioned to Succeed in an Open Trade Environment which will now include DCA agreement for Grenada. A **Negative**

Determination with Conditions is recommended. In addition to the conditions listed in the attached IEE, the Mission Environmental Officer will clear on all loan agreements under this activity as well as other responsible parties at the mission.

_____ Date _____
Victor H. Bullen
Bureau Environmental Officer
Bureau for Latin America & the Caribbean

Copy to: Karen Turner, Director, USAID/Jamaica-CAR

Copy to: Howard Batson, MEO, USAID/Jamaica

Copy to: Joan Taffe, Program Management Specialist
OPDM, USAID/J-CAR

Copy to: Mike Donald, REA

Copy to: Beth Cypser, LAC/CAR

Copy to: IEE File

AMENDED INITIAL ENVIRONMENTAL EXAMINATION

Project Number 538-009 LAC-IEE-04-66

Project Location: Caribbean Region

Project Title: Caribbean Region Positioned to Succeed in an Open Trade Environment (to now include DCA agreement for Grenada)

Funding: To include a US\$4.0 million DCA Guarantee with total Loan Portfolios US\$8.0 million.

Life of RSO: FY 2005 – 2009

IEE Prepared by: Joan Taffe, Program Management Specialist
OPDM, USAID/J-CAR

Clearance: Rebecca Rohrer, CRP Director
USAID/J-CAR

Recommended Threshold Decision: Negative Determination with Conditions

CONCURRENCE

 Howard Batson,
 Mission Environmental Officer
 USAID/J-CAR

 Michael Donald
 Regional Environmental Advisor
 USAID/Guatemala

MISSION DIRECTOR'S DECISION

Approved: _____
 Karen D. Turner

Date: _____

LAC BUREAU ENVIRONMENTAL OFFICER'S DECISION

Approved: _____

Date: _____

Background

In response to the damage caused by Hurricane Ivan in Grenada, USAID/Caribbean proposes the use of a DCA loan portfolio guarantee with the Grenada Co-operative Bank and the RBTT Grenada Limited. The DCA facility is expected to stimulate financing to productive economic sectors of the Grenadian economy through increased lending to borrowers in the agriculture, tourism, manufacturing, wholesale/retail and construction industries that were affected by Hurricane Ivan and are deemed to be viable for economic growth and employment potential.

Given the extensive damage to physical assets and commercial operations, individuals and businesses may experience difficulty in accessing debt financing for reconstruction, as collateral or stable cash flows that normally serve as the basis for bank credit decisions have been severely impaired. The USAID/Caribbean guaranteed credit facility will therefore enable the Grenada Co-operative Bank and the RBTT Grenada Limited to lend to borrowers wanting to rebuild or begin viable businesses that may otherwise have difficulty in accessing credit.

The damage to Grenada's economy caused by Hurricane Ivan severely diminished the country's ability to compete in a free trade environment. The proposed activity will therefore support the Mission's Regional Strategic Objective (RSO9), "Caribbean region positioned to succeed in an open trade environment," by helping to rebuild Grenada's economic base, upon which it can grow and continue to leverage market opportunities. The proposed loan portfolio guarantee will facilitate the country's reconstruction while working towards the Mission's objectives.

Illustrative areas of activities for the DCA Program in Grenada:

Through the DCA, USAID intends to facilitate increased lending by the Grenada Co-operative Bank and the RBTT Grenada Limited to small and micro business clients that are deemed to be viable and have growth and employment potential. Under the guaranteed loan agreement, the total loan principal to any one qualified borrower within the tourism sector is US\$1,000,000 and US\$250,000 to qualified borrowers in any other sector. Although no specific activities have been identified for the DCA, it is anticipated that they will cover a wide range within the scope of small to medium micro-economic reconstruction and recovery. The following economic sectors have been identified for DCA loan assistance.

Agriculture, Livestock, Fisheries

This sector plays a vital multi-functional role in generating foreign exchange, providing employment and contributing to food security. Extensive losses were recorded in the crop sub sector, livestock, fisheries and in the seventy-two water catchments. It is anticipated that loan activity in this sector may involve restoration of crop production and markets (planting materials, tools, irrigation equipment and other production inputs),

livestock replenishment, housing and supplies, and in the fisheries sector, boat repair and replacement and refurbishment of fishing equipment, cold storage facilities and supplies.

Tourism

Tourism, which is the major economic sector in Grenada, was severely affected by Hurricane Ivan and the industry is expected to contract by 25% as a result. The hurricane damage has severely limited the capacity of tourist accommodations, (with damage to approximately 90% of hotel rooms) and has caused extensive losses to yachts and yachting installations. **It is anticipated that most loan activity will involve construction, particularly in the hotel sector, including reconstruction, repair and refurbishments and replacement of equipment and supplies.** Loans may also be extended to related sectors, such as transportation, restaurant and catering, yachting and boating, tour and attraction facilities and infrastructure redevelopment, for the restoration of services.

Manufacturing

Hurricane Ivan damaged approximately 75% of the manufacturing sector's buildings and inventories, with the rum, furniture and garment industries suffering the most significant damage. Additionally, a number of light manufacturing industries lost substantial portions of their inventories and suffered damage. **It is anticipated that reconstruction in this sector will also be a priority as well as restocking of inventories and replacement of equipment and supplies.** Loans may be required to replace storage, food/fruit processing and packaging equipment, as well as upgrading or re-installation of equipment.

Wholesale and Retail

The wholesale and retail sectors account for approximately 10% of Grenada's GDP and is comprised of a wide variety of traders which are largely dependent on other sectors, such as tourism and agriculture. Following Hurricane Ivan, the sector is projected to record zero growth in 2004. **Loan activities in this area could include loans to small businesses in both formal and informal sectors for restocking goods for resale, as well as replacing tools and equipment and upgrading businesses for expansion.**

Construction

The construction sector is expected to grow by 15% in 2004 as a result of the rehabilitation and recovery efforts following Hurricane Ivan. **In the public sector, construction will focus on redeveloping the social infrastructure and restoring public buildings. In the private sector, activity will be dominated by home reconstruction.** So far activities under this sector have not been specifically defined beyond the DCA criteria for funding and the borrower's demonstrably ability to comply with Reg. 216 requirements and local environment laws.

Program Implementation:

Under the DCA guarantee, the Grenada Co-operative Bank and the RBTT Grenada Limited will use their own funds for the loans. USAID funding will be in the form of

loan guarantees to the banks on specific DCA loans. The guarantee extended by USAID will be 50% of the loan principals. While USAID does not have control over the activities chosen by the two local lending institutions, the legal agreement with the banks addresses the environmental considerations associated with this activity and requires conformation to the Government of Grenada's environmental and planning approval.

Environmental Impact and Mitigation Measures:

It is anticipated that most loans will be provided for activities that fall within the sectors described above and may involve agricultural inputs, construction, infrastructure modification and the purchase of equipment and supplies that could have some implications for the natural environment. It is recognized that the potential exists under this program for a causal relationship between the activity and the Agency, and while USAID, does not have control over the activity chosen by the local lending institution, the lending agreement addressed the environmental considerations associated with this activity and requires confirmation with the host government's environmental and planning process. The Mission will review and approve each loan to ensure that they not only fall within the DCA eligibility guidelines, but also demonstrate compliance with local environmental laws and provide sufficient information to enable USAID to make an assessment of the potential environmental impact of such activities" (see attached ANNEX 1: DCA Loan Agreement Conditions). The Mission will, therefore, be responsible for ensuring that each activity is compliant with environmental regulations and guidelines.

Monitoring and Reporting:

While USAID funds will not be used directly under this program, it is recognized that the potential exists for a causal relationship between the activity which the DCA guarantee supports and the Agency. The CTO will therefore be responsible for ensuring that the financial institutions are compliant with the DCA Loan Agreement Conditions, which requires conformation of the Government of Grenada's environmental and planning approval through the Ministry of Health, Social Security and Environment.

Recommendation for a Negative Determination with conditions: Given the DCA environmental compliance requirements laid out in the Loan Agreement Conditions, significant adverse environmental impacts are not foreseen from the implementation of these activities. However, a negative determination with conditions is recommended for activities which will involve construction and infrastructural development. Accordingly, such activities should be reviewed on a case by case basis to determine the potential negative environmental impacts, and measures taken to mitigate them using the provision of the LAC Bureau Environmental Guidelines. In addition, activities are required to be in accordance with the environmental regulations and permitting processes of the host country, Grenada.

ANNEX 1: DCA Loan Agreement Conditions

The Loan must not be used to finance any of the following without the prior written approval of USAID:

- (1) Pharmaceuticals,
- (2) Pesticides,
- (3) Logging equipment,
- (4) Luxury goods (including alcoholic beverages and jewelry),
- (5) Establishing or expanding any enterprise that will export raw materials that are likely to be in surplus in world markets at the time such production becomes effective and that are likely to cause substantial injury to U.S. producers,
- (6) Activities which would result in the loss of forest lands due to livestock rearing, road construction or maintenance, colonization of forest lands or construction of dams or other water control structures,
- (7) Activities which, are likely to have a significant adverse effect on the environment, including any of the following (to the extent such activities are likely to 'have a significant adverse impact on the environment):
 - (a) *programs of river basin development.*
 - (b) *significant irrigation or water management projects (including dams and impoundments),*
 - (c) *agricultural land leveling*
 - (d) *major drainage projects,*
 - (e) *large-scale agricultural mechanization.*
 - (f) *new lands development,*
 - (g) *resettlement projects,*
 - (h) *penetration road building or road improvement projects,*
 - (i) *construction of powerplants or industrial plants, or*
 - (j) *large-scale potable water and sewerage projects.*
- (8) Activities which are likely to involve the loss of jobs in the United States due to the relocation or expansion outside of the United States of an enterprise located in the United States, or
- (9) Activities which the Guaranteed Party is aware are reasonably likely to contribute to the violation of internationally recognized rights of workers.

Approval of loans to finance activities described in subsections (2), (3), (6) or (7) above will be contingent upon the submission by, the Guaranteed Party of evidence sufficient to demonstrate compliance with local environmental laws and to enable USAID to make an assessment of the environmental impact of such activities.